

**DENTON COUNTY FRESH WATER SUPPLY
DISTRICT NO. 1-A**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water
Supply District No. 1-A
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 1-A (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated March 18, 2011 on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards board, who considers it to be an essential part of historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the Water District Financial Management Guide is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents on pages 49 through 57 are required by the Texas Commission on Environmental Quality as published in the Water *District Financial Management Guide* and are not a required part of the basic financial statements. The accompanying supplementary information, excluding the portion marked "Unaudited" have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL L.L.P.

Dallas, Texas
March 18, 2011

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-A's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at September 30, 2010 by \$1,323,092. Of this amount, \$1,002,039 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net assets restricted for specific purposes total \$49,653. The remaining net assets balance of \$271,400 is unrestricted.
- The District's net assets increased by \$56,938. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, increased by \$133,921.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$207,069, a net increase of \$49,199 in comparison to the prior year.
- On a government-wide basis, the District's total liabilities increased by \$2,843,608 during the current fiscal year. The primary cause of the increase is the issuance of \$2.6 million of tax free bonds for construction related to the District's Pump Station Improvements Project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government wide financial statements combine both: (1) the Statement of Net Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Government-wide financial statements (continued)

The first of the government-wide statements is the statement of net assets. This information is found in the statement of net assets column on pages 9 and 10. The statement of net assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the statement of activities on pages 12 and 13 reports how the District's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). Both the statement of net assets and statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

Fund financial statements

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs. The Ground Storage Fund accounts for bond proceeds and uses related to the District's Pump Station Improvements Project.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustment column, the reconciliation of the governmental funds balance sheet to the statement of net assets on page 11 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in the fund balances to the statement of activities on page 14 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

Notes to the basic financial statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 48 in this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI). A budgetary comparison schedule is included as RSI for the general fund. Additionally, information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is included as other supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$1,323,092 as of September 30, 2010.

A portion of the District's net assets reflects its investments in capital assets (e.g. lift station, vehicles and equipment and leasehold improvements), less any debt used to acquire those assets that is still outstanding. The District uses these assets to provide services to the other districts in the Castle Hills Subdivision.

The following is a comparative analysis of the government-wide changes in net assets:

	Summary of Changes in the Statement of Net Assets		
	2010	2009	Change
Current and other assets	\$ 10,002,629	9,585,837	\$ 416,792
Capital assets (net of accumulated depreciation)	3,707,136	1,223,382	2,483,754
Total assets	13,709,765	10,809,219	2,900,546
Long-term liabilities	2,663,225	64,221	2,599,004
Due to developer	9,376,426	9,314,900	61,526
Other liabilities	347,022	163,944	183,078
Total liabilities	12,386,673	9,543,065	2,843,608
Net assets			
Invested in capital assets, net of related debt	1,002,039	1,108,284	(106,245)
Restricted	49,653	20,391	29,262
Unrestricted	271,400	137,479	133,921
Total net assets	1,323,092	\$ 1,266,154	\$ 56,938

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended September 30, 2010 and 2009. The District's net assets increased by \$56,938 including a prior period adjustment increase of \$30,265, accounting for a 4.5% increase in net assets.

	Summary of Changes in the Statement of Activities		
	2010	2009	Change
Revenues:			
Project management fee	\$ 326,929	\$ 259,487	\$ 67,442
Charges for services	59,114	70,698	(11,584)
Other revenues	84,827	16,207	68,620
Total revenues	470,870	346,392	124,478
Expenses for services	444,197	445,892	(1,695)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26,673	(99,500)	126,173
OTHER FINANCING SOURCES (USES)			
Contributions from other governmental units	-	1,650,330	(1,650,330)
Contributions to other governmental units	-	(1,686,499)	1,686,499
Total other financing sources (uses)	-	(36,169)	36,169
Change in net assets	26,673	(135,669)	162,342
Net assets, beginning of year (as previously stated)	1,266,154	1,401,823	(135,669)
Prior period adjustment	30,265	-	30,265
Net assets, beginning of year (as restated)	1,296,419	1,401,823	(105,404)
Net assets, end of year	\$ 1,323,092	\$ 1,266,154	\$ 56,938

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2010, was \$207,069, a net increase of \$49,199 from the prior year including the prior period adjustment increase of \$30,265.

The General Fund had a increase in fund balance of \$19,937.

The Capital Projects Fund had a net increase in fund balance of \$29,262, which includes the prior period adjustment increase of \$30,265.

The Ground Storage Capital Fund being a cost reimbursement fund had no change in its fund balance in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$384,989 compared to the amended budget of \$217,224. The negative budget variance of \$167,765 was primarily due to professional fees. Actual revenue on a budgetary basis was \$404,926 compared to the amended budget of \$454,450. The \$49,524 negative variance is primarily due to project management fee revenue. See the budget to actual comparison on page 49 for additional information.

CAPITAL ASSETS

The District's investment in capital assets as of September 30, 2010, amounts to \$3,707,136 (net of accumulated depreciation). This investment in capital assets includes the lift station, leasehold improvements, vehicles and equipment.

Capital Assets at Year-End, Net of Accumulated Depreciation

	2010	2009	Increase (Decrease)
Construction in progress	\$ 2,566,247	28,000	\$ 2,566,247
Lift station	984,294	1,008,333	-
Equipment	94,711	134,446	-
Office equipment	11,202	14,950	11,202
Vehicles	50,682	37,653	50,682
Total net capital assets	\$ 3,707,136	\$ 1,223,382	\$ 2,628,131

Additional information on the District's capital assets can be found in Note 4 on pages 23 and 24 of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

LONG-TERM DEBT ACTIVITIES

The District has entered into capital leases on behalf of other Districts that are part of the Castle Hill's Development. The District issued Denton County Fresh Water Supply District No. 1-A Contract Revenue Bonds in the current year. Under the agreement with the Texas Water Development Board the District may receive up to \$3,335,000 of funding to cover expenditures related to the Pump Station Improvement Project. \$2,440,000 of proceeds were issued and received and \$204,908 was recorded as a receivable under the bond during the year ended September 30, 2010. The debt is recorded in the financial statements of the District and is funded by the other Districts that are a part of the Castle Hills's Development. The following schedule shows the change in the District's long-term liabilities for the year ended September 30, 2010.

Debt balance - October 1, 2009	\$ 115,098
Add: ARRA Bonds issued	2,644,908
Less: Capital lease principal paid	54,909
Debt balance - September 30, 2010	\$ 2,705,097

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the 2010-2011 Budget, revenues are anticipated to increase by approximately \$31,000 from the 2009-10 budget year, primarily to water sales and management fees. Expenses for the FY 2010-11 are anticipated to increase by approximately \$29,800 primarily due to legal expenses.

The District's expenses, as outlined in the Operating Agreement with District 1-B, District 1-C, District 1-D, District 1-E, District 1-F, District 1-G, and District 1-H (in this Note referred to as Sub-Districts), are allocated to the Sub-Districts. The District has made a concerted effort to limit expenditures to only items that are necessary.

The FY 2010/2011 budget has been divided into three funds for accounting purposes; the General Fund, Operations Fund, and a Utility Fund, primarily to measure various expenditures against supporting revenue items. Another change in accounting is also the method expenditures are charged to each of the Sub-Districts. All expenditures, with the exception of District direct expenses and usage expenses, are billed to the District. Subsequently, each of the Sub-District's are charged with a portion of the monthly bills which are billed to the Sub-District's as a 1-A reimbursement.

The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Denton County Fresh Water Supply District No. 1-A, c/o Kelly Hart & Hallman, LLP, 201 Main Street, Suite 2500, Fort Worth, TX 76102.

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2010**

	General Fund	Capital Projects Fund
ASSETS		
Cash	\$ 51,755	\$ 18,691
Other receivables	13,915	-
Prepaid costs	24,230	-
Due from other governmental unit	166,758	30,962
Bond issuance costs	-	-
Construction in progress	-	-
Capital assets (net of accumulated depreciation)	-	-
TOTAL ASSETS	\$ 256,658	\$ 49,653
LIABILITIES		
Accounts payable and accrued liabilities	\$ 80,064	\$ -
Due to other governmental units	6,555	-
Due to developer	-	-
Security deposits	5,300	-
Retainage payable	-	-
Deferred revenue	7,323	-
Long term debt		
Due within one year	-	-
Due after one year	-	-
TOTAL LIABILITIES	99,242	-
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Reserved		
Capital projects	-	49,653
Prepaid costs	24,230	-
Unreserved - undesignated	133,186	-
TOTAL FUND BALANCES	157,416	49,653
TOTAL LIABILITIES AND FUND BALANCES	\$ 256,658	\$ 49,653
NET ASSETS		
Invested in capital assets, net of related debt		
Restricted for:		
Capital projects		
Unrestricted deficit		
TOTAL NET ASSETS		

The Notes to Financial Statements are an integral part of this statement.

Ground Storage Capital Fund	Total	Adjustments	Statement of Net Assets
\$ 8,323	\$ 78,769	\$ -	\$ 78,769
204,908	218,823	-	218,823
-	24,230	-	24,230
-	197,720	9,376,426	9,574,146
-	-	106,661	106,661
-	-	2,566,247	2,566,247
-	-	1,140,889	1,140,889
<u>\$ 213,231</u>	<u>\$ 519,542</u>	<u>\$ 13,190,223</u>	<u>\$ 13,709,765</u>
\$ 88,571	\$ 168,635	\$ -	\$ 168,635
-	6,555	-	6,555
-	-	9,376,426	9,376,426
-	5,300	-	5,300
124,660	124,660	-	124,660
-	7,323	(7,323)	-
-	-	41,872	41,872
-	-	2,663,225	2,663,225
<u>213,231</u>	<u>312,473</u>	<u>12,074,200</u>	<u>12,386,673</u>
-	49,653	(49,653)	-
-	24,230	(24,230)	-
-	133,186	(133,186)	-
-	207,069	(207,069)	-
<u>\$ 213,231</u>	<u>\$ 519,542</u>		
		1,002,039	1,002,039
		49,653	49,653
		271,400	271,400
		<u>\$ 1,323,092</u>	<u>\$ 1,323,092</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Total Fund Balances - Governmental Funds \$ 207,069

Amounts reported for governmental activities in the statement of net assets are different because:

Certain bond related items are expensed at the fund level, but are capitalized at the government-wide level and amortized over the life of the asset. 106,661

Governmental funds do not record long-term receivables due from other governmental units for amount contributed for construction projects. However, in the statement of net assets, the receivable is recorded. 9,376,426

Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds. 2,566,247

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. 1,140,889

Governmental funds do not record a long-term liability to the developer for advances. However, in the statement of net assets, the liability for these advances is recorded. (9,376,426)

Revenue reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statement. 7,323

Certain liabilities, including leases payable and bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Leases payable	\$ (60,189)	
Contractual obligations	(2,644,908)	(2,705,097)

Total Net Assets of Governmental Activities \$ 1,323,092

The Notes to Financial Statements are an integral part of this statement.

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Capital Projects Fund
REVENUES:		
Project management fee	\$ 326,929	\$ -
Charges for service	58,011	-
Water service	6	-
Penalty and interest	2	-
Permits and inspections	1,095	-
Investment revenues	7,454	98
Miscellaneous revenues	11,429	8,542
	404,926	8,640
TOTAL REVENUES		
EXPENDITURES/EXPENSES		
Service operations:		
Personnel	3,432	-
Professional fees	245,547	-
Purchased water service	366	-
Purchased wastewater service	1,493	-
Repairs and maintenance	2,152	9,643
Other	73,988	-
Capital outlay	-	-
Debt service:		
Capital lease principal payments	54,909	-
Capital lease interest	3,102	-
Depreciation	-	-
	384,989	9,643
TOTAL EXPENDITURES/EXPENSES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,937	(1,003)
OTHER FINANCING SOURCES (USES)		
Contributions to other governmental units	-	(600,097)
Federal loan proceeds	-	-
Contributions from other governmental units	476,552	-
Developer advances (payments)	(476,552)	600,097
	-	-
TOTAL OTHER FINANCING SOURCES (USES)		
NET CHANGE IN FUND BALANCES	19,937	(1,003)
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS, AT OCTOBER 1, 2009 (as previously stated)	137,479	20,391
PRIOR PERIOD ADJUSTMENT	-	30,265
FUND BALANCES/NET ASSETS, AT OCTOBER 1, 2009 (as restated)	137,479	50,656
FUND BALANCES/NET ASSETS - SEPTEMBER 30, 2010	\$ 157,416	\$ 49,653

The Notes to Financial Statements are an integral part of this statement.

Ground Storage Capital Fund	Total	Adjustments	Statement of Activities
\$ -	\$ 326,929	\$ -	\$ 326,929
-	58,011	-	58,011
-	6	-	6
-	2	-	2
-	1,095	-	1,095
-	7,552	-	7,552
-	19,971	57,304	77,275
-	413,566	57,304	470,870
-	3,432	-	3,432
-	245,547	-	245,547
-	366	-	366
-	1,493	-	1,493
-	11,795	-	11,795
-	73,988	-	73,988
2,538,247	2,538,247	(2,538,247)	-
-	54,909	(54,909)	-
106,661	109,763	(106,661)	3,102
-	-	104,474	104,474
2,644,908	3,039,540	(2,595,343)	444,197
(2,644,908)	(2,625,974)	2,652,647	26,673
-	(600,097)	600,097	-
2,644,908	2,644,908	(2,644,908)	-
-	476,552	(476,552)	-
-	123,545	(123,545)	-
2,644,908	2,644,908	(2,644,908)	-
-	18,934	(18,934)	-
-	-	26,673	26,673
-	157,870	1,108,284	1,266,154
-	30,265	-	30,265
-	188,135	1,108,284	1,296,419
<u>\$ -</u>	<u>\$ 207,069</u>	<u>\$ 1,116,023</u>	<u>\$ 1,323,092</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net Change in Fund Balances - Governmental Funds \$ 18,934

Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements. 57,304

Governmental funds report capital expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases or contributed assets. 2,538,247

Governmental funds report lease principal payments as expenditures. However, in the government-wide financial statements, lease principal payments are reported as decreases in long-term liabilities. 54,909

Bond issuance costs are expenditures in the fund financial statements when debt is issued, but are amortized over the term of the bond in the government-wide financial statements. 106,661

Governmental funds do not account for depreciation. However, in the statement of net assets, capital assets are depreciated and depreciation is recorded in the statement of activities. (104,474)

Governmental funds report contributions to other governmental units as other financing uses. However, in the government-wide financial statements, contributions to other governmental units that are expected to be repaid are recorded as an increase to the receivable. 600,097

Current year bond proceeds and capital leases are other finance sources in the fund financial statements, but are shown as an increase in the liabilities on the government-wide financial statements. (2,644,908)

Governmental funds report contributions from other governmental units as other financing sources. However, in the government-wide financial statements, this contribution is shown as a reduction of the District's receivable. (476,552)

Governmental funds report developer advances and payments as other financing sources and uses. However, in government-wide financial statements they are shown as an increase in the amount owed to the developer. (123,545)

Change in Net Assets of Governmental Activities \$ 26,673

The Notes to Financial Statements are an integral part of this statement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. CREATION OF DISTRICT

By the terms of an election held on January 17, 1983, voters approved the creation of the Denton County Fresh Water Supply District No. 1 of Denton County, Texas (the District). As a result of another election held on August 8, 1987, the voters approved the District's assumption of certain rights, authority, privileges and functions of a road district and approved for the District to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems. On December 21, 1993, following a hearing, the governing board of the District approved the conversion of the District to a Water Control and Improvement District and conversion to operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.035, 53.037 through 53.041, 53.111, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of the District on May 6, 1995, voters approved the division of the District into two new districts of which Denton County Fresh Water Supply District No. 1-A was one. The District held its first meeting on July 13, 1995. Pursuant to the provisions of Chapters 49, 51, and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all firefighting activities within the District. The District has contracted to operate the Districts included in the Castle Hills Development, including Denton County Fresh Water Supply District No. 1-B, 1-C, 1-D 1-E, 1-F, 1-G and 1-H.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. In addition, the accounting records of the District are maintained generally in accordance with the Water District Financial Management Guide published by the Commission.

Under Governmental Accounting Standards Board Statement 14 the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent governmental entity. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to access, are significant to that primary government.

The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments.

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Assets — This component of net assets consists of external constraints placed on the use of net assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets — This component of net assets consists of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt."

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. The District's statement of net assets and statement of activities are combined with the governmental fund financial statements. The District is viewed as a special purpose government and has the option of combining these financial statements.

The statement of net assets is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the statement of net assets.

The statement of activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide statement of activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government wide statements. The fund statements include a balance sheet and statement of revenues, expenditures and changes in fund balances.

Governmental Funds

The District has two major governmental funds.

General Fund – To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Capital Projects Fund – To account for financial resources segregated for acquisition or construction of facilities and related costs.

Ground Storage Capital Fund – To account for the bond proceeds and uses related to the District Pump Station Improvements Project.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within sixty (60) days after year end.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting – Continued

Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as another financing source or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the governmental funds balance sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Cash and Cash Equivalents

The District cash and cash equivalents are considered to be cash on hand demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Prepaid Items and Deferred Charges

Prepaid balances are for payments made by the District for which benefits extend beyond September 30, 2010, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

Deferred charges reported at the government-wide level are comprised of the balance of unamortized debt issuance costs. The District's policy is to amortize issuance costs over the life of the related debt using the effective interest method.

Capital Assets

Capital assets which include vehicles, equipment and leasehold improvements, are reported in the government-wide statement of net assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide statement of activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets -continued

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

Equipment	3 years
Office equipment	3-5 years
Vehicles	5 years
Lift station	20-45 years
Leasehold improvements	Term of lease

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund.

Pensions

The Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established for the directors. The district does have employees for which a retirement plan was established, (see Note 16).

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide statement of net assets and statement of activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus - continued

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the balance sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use

Unreserved:

Designated - To indicate fund equity for which the District has made tentative plans

Undesignated - To indicate fund equity which is available for use in future periods

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits and cash on hand was \$78,769 and the bank balance was \$227,227. The bank balance was covered by federal depository insurance.

The carrying values of the deposits are included in the governmental funds balance sheet and the statement of net assets at September 30, 2010, as listed below:

	Cash
General fund	\$ 51,755
Special revenue fund	8,323
Capital projects fund	18,691
Total deposits	\$ 78,769

The District is the custodian to a consolidated cash account. The consolidated cash account is allocated between districts with operations within the Castle Hills development.

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-i or P-I or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of September 30, 2010, the District had no investments.

Restrictions

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010:

	September 30, 2009	Additions	Disposals	September 30, 2010
Capital assets not being depreciated				
Construction in progress	\$ 28,000	\$ 2,644,908	\$ -	\$ 2,672,908
Capital assets at historical costs subject to depreciation				
Lift station	\$ 1,081,766	\$ -	\$ -	\$ 1,081,766
Leasehold improvements	99,720	-	(99,720)	-
Equipment	242,898	10,392	-	253,290
Office equipment	118,853	-	-	118,853
Vehicles	246,830	39,589	(40,608)	245,811
Total capital assets at historical costs subject to depreciation	<u>\$ 1,790,067</u>	<u>\$ 49,981</u>	<u>\$ (140,328)</u>	<u>\$ 1,699,720</u>
Less accumulated depreciation				
Lift station	\$ 73,433	\$ 24,039	\$ -	\$ 97,472
Leasehold improvements	99,720	-	(99,720)	-
Equipment	108,452	50,127	-	158,579
Office equipment	103,903	3,748	-	107,651
Vehicles	209,177	26,560	(40,608)	195,129
Total accumulated depreciation	<u>\$ 594,685</u>	<u>\$ 104,474</u>	<u>\$ (140,328)</u>	<u>\$ 558,831</u>
Total depreciable capital assets, net of accumulated depreciation	<u>\$ 1,195,382</u>	<u>\$ (54,493)</u>	<u>\$ -</u>	<u>\$ 1,140,889</u>
Total capital assets, net of accumulated depreciation	<u><u>\$ 1,223,382</u></u>	<u><u>\$ 2,590,415</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,813,797</u></u>

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-B, 1-C, 1-D, 1-E and the District. The agreement provided for a cost sharing of the cost of construction of certain Lift Station Facilities. The District will own the facilities for the benefit of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes District No. 1-B, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 1-H.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS – CONTINUED

This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer connection as of September, 2009. Capacity in the facilities is allocated as follows:

District No. 1-B	36.69%
District No. 1-C	0.22%
District No. 1-D	42.97%
District No. 1-E	<u>20.12%</u>
 Total	 <u><u>100.00%</u></u>

District Nos. 1-B, 1-C, 1-D and 1-E are defined in the ECPA as “Selling Districts”. It is the intent of the Selling Districts to sell excess capacity to District Nos. 1-F, 1-G and 1-H based on the actual capacity needed as development occurs within their respective district. The cost of capacity to District Nos. 1-F, 1-G and 1-H will be calculated based upon the provisions outlined in the ECPA.

As of September 30, 2010, District Nos. 1-F, 1-G and 1-H have not purchased capacity in the lift station facilities.

NOTE 5. MAINTENANCE TAX

On November 7, 1995, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs. During the year ended September 30, 2010, the District did not levy an ad valorem maintenance tax.

The District’s tax calendar is as follows:

Levy Date – October 1, or as soon thereafter as practicable

Lien Date – January 1

Due Date – Not later than January 31

Delinquent Date – February 1, at which time the taxpayer is liable for penalty and interest

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. JOINT UTILITY CONTRACTS

On July 15, 1996, the District, Denton County Fresh Water Supply District No. 1-B (District No.1-B), and the City of Lewisville (Lewisville) executed an Amended and Restated Joint Utility Contract. On November 13, 1997, Amendment No.1 to the amended and Restated Joint Utility Contract was approved. The contract states that Lewisville will proceed with financing utility and road facilities within District No.1-B through the sale of \$20,992,740 in Public Improvement District (PID) bonds, now referred to as PID 1. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated March 14, 1997, (see Note 7). The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District 1-B shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 1 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the Districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 1 and Lewisville, District No.1-B agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 1 Bonds as they mature. District No.1-B will commit each year to levy, assess and collect a tax on all taxable property within District No.1-B, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 1 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 1 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 1 Bonds and, if needed, will calculate an assessment on all assessable property within the PID 1, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No.1-B of the calculation of the Annual Assessment by September 1 of each year proceeding the above referenced March 1.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

During the current fiscal year, District No. 1-B made contract tax payments of \$1,570,768 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2010 is \$1,570,568 and the District has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2010 including reserve funds is holding \$2,332,930 in trust for District No. 1-B. The amount held in trust in excess of the reserve is available to cover debt service requirements of PID 1. The Reserve Fund is maintained by the City of Lewisville for PID 1.

PID 1 SERIES - 1998			
Fiscal Year Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2011	\$ 685,000	\$ 883,013	\$ 1,568,013
2012	725,000	846,194	1,571,194
2013	765,000	807,225	1,572,225
2014	805,000	766,106	1,571,106
2015	850,000	722,838	1,572,838
2016	895,000	677,150	1,572,150
2017	945,000	625,240	1,570,240
2018	1,000,000	570,430	1,570,430
2019	1,060,000	512,430	1,572,430
2020	1,120,000	450,950	1,570,950
2021	1,185,000	385,990	1,570,990
2022	1,250,000	317,260	1,567,260
2023	1,330,000	244,760	1,574,760
2024	1,405,000	167,620	1,572,620
2025	1,485,000	86,130	1,571,130
Total	<u>\$ 15,505,000</u>	<u>\$ 8,063,336</u>	<u>\$ 23,568,336</u>

On February 1 following the date of receipt of written notification of the Annual Assessment, District No.1-B will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 1 sufficient to pay the debt service requirement on the PID 1 Bonds as they come due. The parties to the agreement acknowledge that the tax levy is contingent upon a one-time approval by the voters within District No.1-B. Such election occurred on August 10, 1996, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2010, District No. 1-B levied a contract tax at the rate of \$0.6529 per \$100 of assessed valuation on taxable property within District No. 1-B. The term of the agreement is forty (40) years.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

On October 14, 1999, the District, Denton County Fresh Water Supply District No. 1-D (District No. 1-D), and the City of Lewisville (Lewisville) executed a Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within District No. 1-D through the sale of \$28,500,000 of Public Improvement District No. 2 (PID 2) bonds; the first installment of these bonds were sold in the amount of \$14,000,000. The first installment of bonds was followed by a refunding and capital improvement bond series in the amount of \$18,150,000. During the 2006 fiscal year, the final installment of bonds was sold in the amount of \$10,350,000. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated June 14, 2000. This agreement was amended on June 11, 2002. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, District Nos. 1-A and 1-D shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 2 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID and Lewisville, District No. 1 -D agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 2 Bonds as they mature. District No. 1-D committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 2 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 2 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 2 Bonds and will, if needed, calculate an assessment on all assessable property within the PID 2, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-D of the calculation of the Annual Assessment by September 1 of each year preceding the above-referenced March 1.

During the current fiscal year, District No. 1-D made contract tax payments to the City of Lewisville in the amount of \$2,161,340 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement of September 30, 2010, is \$2,359,065 and the District has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2010 including reserve funds is holding \$2,859,664 in trust for District No. 1-D. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 2.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

The following is an amortization schedule of the existing outstanding debt District No. 1-D's contract tax is expected to amortize.

PID 2 REFUNDING SERIES - 2002			
Fiscal Year Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2011	\$ 575,000	\$ 967,605	\$ 1,542,605
2012	605,000	940,293	1,545,293
2013	635,000	911,555	1,546,555
2014	670,000	875,836	1,545,836
2015	705,000	838,149	1,543,149
2016	745,000	798,492	1,543,492
2017	790,000	756,586	1,546,586
2018	835,000	712,149	1,547,149
2019	880,000	663,093	1,543,093
2020	935,000	611,392	1,546,392
2021	990,000	556,462	1,546,462
2022	1,045,000	498,299	1,543,299
2023	1,105,000	436,904	1,541,904
2024	1,170,000	373,920	1,543,920
2025	1,235,000	307,230	1,542,230
2026	1,310,000	236,835	1,546,835
2027	1,385,000	162,165	1,547,165
2028	1,460,000	83,220	1,543,220
Total	<u>\$ 17,075,000</u>	<u>\$ 10,730,185</u>	<u>\$ 27,805,185</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

PID 2 SERIES - 2005			
Fiscal Year Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
2011	\$ 200,000	\$ 609,600	\$ 809,600
2012	210,000	597,600	807,600
2013	225,000	585,000	810,000
2014	240,000	571,500	811,500
2015	250,000	557,100	807,100
2016	265,000	542,100	807,100
2017	285,000	526,200	811,200
2018	300,000	509,100	809,100
2019	320,000	491,100	811,100
2020	340,000	471,900	811,900
2021	360,000	451,500	811,500
2022	380,000	429,900	809,900
2023	400,000	407,100	807,100
2024	425,000	383,100	808,100
2025	450,000	357,600	807,600
2026	480,000	330,600	810,600
2027	510,000	301,800	811,800
2028	540,000	271,200	811,200
2029	570,000	238,800	808,800
2030	605,000	204,600	809,600
2031	640,000	168,300	808,300
2032	680,000	129,900	809,900
2033	720,000	89,100	809,100
2034	765,000	45,900	810,900
2035			-
Total	\$ 10,160,000	\$ 9,270,600	\$ 19,430,600

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-D will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 2 sufficient to pay the debt service requirement on the PID 2 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-D. Such election occurred on May 6, 2000, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2010, District No. 1-D levied a contract tax at the rate of \$0.7549 per \$100 of assessed valuation upon property with District No. 1-D. The term of the agreement is forty (40) years.

On April 26, 2001 the District, Denton County Fresh Water Supply District No. 1-E (District No. 1-E), and the City of Lewisville (Lewisville) executed a 2001 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within District No. 1-E through the sale of \$28,500,000 of Public Improvement District No. 3 (PID 3) bonds; the first installment of these bonds were sold in the amount of \$14,000,000. In 2004, PID 3 sold \$25,000,000 in Combination Contract Revenue and Special Assessment Refunding and Capital Improvement Bonds to replace the previously sold \$14,000,000 in bonds. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated July 1, 2001. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1 -E shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 3 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 3 and Lewisville, District No. 1-E agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID Bonds as they mature. District No. 1-E committed each year to levy, assess and collect a tax on all taxable property within District No. 1-E, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 3 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 3 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 3 Bonds and, if needed, will calculate an assessment on all assessable property within the PID 3, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-E of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced March 1.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

During the fiscal year, District 1-E made contract tax payments of \$2,198,099 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2010 is \$2,203,263 and the District has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2010 including reserve funds is holding \$2,203,412 in trust for District 1-E. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 3.

The following is an amortization schedule of the existing outstanding debt District No. 1 -E's contract tax is expected to amortize.

PID 3 SERIES - 2004			
Fiscal Year Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2011	\$ 715,000	\$ 1,484,375	\$ 2,199,375
2012	760,000	1,443,263	2,203,263
2013	800,000	1,399,563	2,199,563
2014	850,000	1,350,563	2,200,563
2015	900,000	1,298,500	2,198,500
2016	955,000	1,243,375	2,198,375
2017	1,015,000	1,184,881	2,199,881
2018	1,080,000	1,122,713	2,202,713
2019	1,145,000	1,056,563	2,201,563
2020	1,215,000	986,431	2,201,431
2021	1,290,000	912,013	2,202,013
2022	1,370,000	833,000	2,203,000
2023	1,450,000	749,088	2,199,088
2024	1,540,000	660,275	2,200,275
2025	1,635,000	565,950	2,200,950
2026	1,735,000	465,806	2,200,806
2027	1,840,000	359,538	2,199,538
2028	1,955,000	246,838	2,201,838
2029	2,075,000	127,094	2,202,094
Total	\$ 24,325,000	\$ 17,489,829	\$ 41,814,829

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-E will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 3 sufficient to pay the debt service requirement on the PID 3 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-E. Such election occurred on November 7, 2000, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2010, District No. 1-E levied a contract tax of \$0.90 per \$100 of assessed valuation on property within District No. 1-E. The term of this contract is forty (40) years.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

On May 21, 2007, the District, Denton County Fresh Water Supply District No. 1-F (District No. 1-F), and the City of Lewisville (Lewisville) executed a 2007 Joint Utility Contract. On January 7, 2008, the Amended and Restated 2007 Joint Utility Contract was approved. The agreement became effective on the date executed by Lewisville and District No. 1-F in accordance with the Amended and Restated 2007 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$32,000,000 of Public Improvement District No. 4 (PID 4) bonds; the first installment of these bonds were sold in the amount of \$20,000,000 in 2008 and the remaining balance of \$12,000,000 in the future. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated October 1, 2006. The District is responsible for designating the consulting engineer on the project and approves the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-F shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 4 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 4 and Lewisville, District No. 1-F agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 4 Bonds as they mature. District No. 1-F committed each year to levy, assess and collect a tax on all taxable property within District No. 1-F, unlimited by rate or amount, sufficient to service up to ninety percent (90%) of the debt and other costs incidental to the PID 4 Bonds.

The additional ten percent (10%) of the debt and other costs included to the PID 4 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 4 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 4 Bonds and will calculate an assessment on all assessable property within the PID 4, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-F of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced February 1.

As of the fiscal year end, the reserve fund requirement is \$1,854,750. To date, District No. 1-F has funded \$929,875 of the reserve and a letter of credit covers the remaining reserve requirement. The Reserve Fund is maintained by PID 4. During the current fiscal year, PID 4 assessment revenue in the amount of \$661,352 was collected and remitted to Lewisville.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

These monies are maintained in an escrow account under the oversight of Lewisville. During the current fiscal year, available PID 4 assessment revenue was used to pay down outstanding principal on the PID 4 bonds in the amount of \$600,000. As of September 30, 2010, \$30,628 remained in the escrow account. As funds are accumulated in the escrow account, these monies will be used to retire additional outstanding PID 4 bonds. The following is an updated amortization schedule on the existing outstanding debt the District's contract tax and assessments are expected to amortize as of September 30, 2010:

PID 4 SERIES - 2008			
Fiscal Year Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2011	\$ -	\$ 1,277,775	\$ 1,277,775
2012	-	1,277,775	1,277,775
2013	500,000	1,244,025	1,744,025
2014	535,000	1,207,912	1,742,912
2015	570,000	1,169,437	1,739,437
2016	610,000	1,128,262	1,738,262
2017	650,000	1,084,387	1,734,387
2018	695,000	1,037,475	1,732,475
2019	740,000	987,525	1,727,525
2020	795,000	933,863	1,728,863
2021	845,000	876,825	1,721,825
2022	905,000	815,738	1,720,738
2023	965,000	750,600	1,715,600
2024	1,030,000	681,075	1,711,075
2025	1,100,000	606,825	1,706,825
2026	1,170,000	527,850	1,697,850
2027	1,250,000	443,475	1,693,475
2028	1,335,000	353,363	1,688,363
2029	1,425,000	257,175	1,682,175
2030	1,520,000	154,575	1,674,575
2031	1,625,000	44,888	1,669,888
2032	665,000		665,000
Total	\$ 18,930,000	\$ 16,860,825	\$ 35,790,825

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-F will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID 4 sufficient to pay the debt service requirement on the PID 4 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-F. Such election occurred on May 12, 2007, and approved the levy and collation of said tax. For the fiscal year ending September 30, 2010, District No. 1-F levied a contract tax at the rate of \$1.00 per \$100 of assessed valuation upon property with District No. 1-F. The term of the agreement is forty (40) years.

NOTE 7. PROJECT MANAGEMENT AGREEMENTS

The District and the City of Lewisville (Lewisville) executed a Project Management Agreement dated March 14, 1997, for District No. 1-B. On November 1, 1999, and July 1, 2001, the District executed additional Project Management Agreements with Denton County Fresh Water Supply Districts Nos. 1-D and 1-E, respectfully. On October 1, 2006, the District entered into a Project Management Agreement with Denton County Fresh Water Supply Districts Nos. 1-F and 1-G.

The agreements provide for the District to prepare a proposed development plan titled the "Project Management Plan." The Plan provides for the recommended time sequence in which construction and acquisition of the Facilities should be completed, including completion of the streets and highways planned for the Project, installation of water, sewer, drainage and other public utilities on the Project, and completion of off-site development. In addition, the agreements provide for the estimated cost of the facilities and recommendations for the issuance of bonds, notes and other obligations.

The District's development duties include and are not limited to contracting for professional services, entering into construction contracts, coordinating with other municipalities, reviewing invoices for payment by Lewisville, verifying the appropriate insurance with each contractor and supervising the performance of each contract. The District further agreed to keep the Project in compliance with the applicable laws, ordinances, regulations and orders relative to the use, operation, leasing, repair, and maintenance of the Project and with all the terms of the Trust Agreements.

The cost of the project includes employees and consultants necessary for implementation of the contract, which shall be billed to Lewisville on a monthly basis and funded from proceeds of the PID Bonds. Other costs to be billed to Lewisville and paid from the PID Bonds are premiums for insurance, all taxes, assessments and special assessments and all costs of facilities. The District will take no action in connection with the development of the Projects unless such action either is in accordance with the Development Plans and the Project Budgets or is approved in writing by Lewisville.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. PROJECT MANAGEMENT AGREEMENTS – CONTINUED

Monthly fees under Project Management Agreements for District No. 1-B, 1-D and 1-E have ceased under the terms of the respective Project Management Agreements. The term of the agreements will terminate thirty (30) days after the issuance of completion certificates by the Engineer for the District on all Facilities unless sooner terminated or unless extended by mutual agreement of Lewisville and the District.

NOTE 8. SEWAGE TREATMENT SERVICE CONTRACT

The District and the City of Lewisville (Lewisville) executed a Sewage Treatment Service Agreement dated August 18, 1997. The District agrees to provide for the conveyance of sewage from its facilities and residents to Lewisville's wastewater collection system and Lewisville agreed to treat the wastewater once received from the District. Lewisville agreed to charge the District the same rate for treatment of its sewage as the rate charged Highland Village. Annually a Cost of Service Study will be performed to determine the rate to be charged the District.

The District's maximum daily volume of sewage delivered to Lewisville shall be 10.5 Million Gallons Per Day (MGD). If wastewater entering Lewisville's system causes Lewisville's system to exceed capacity, the District shall be liable for all penalties assessed to Lewisville regarding the overflow and spillage caused by the District.

On or before June 1 of each year the District will furnish Lewisville with the number of active residential sewer connections, the number of commercial/industrial sewer connections and the number of active educational institutions, hospitals or similar institutions served, all as of May 1. Additionally the District shall notify Lewisville of all non-residential establishments planned to be constructed. The term of the agreement is thirty (30) years from its effective date, which was 30 days after the agreement was executed.

NOTE 9. WATER SUPPLY AGREEMENTS

Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member

On May 7, 1992 Denton County Fresh Water Supply District No. 1 executed an agreement with the Upper Trinity Regional Water District to provide treated water to participants in the UTRWD. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

The governing body of each contract member, each participating member and the County are entitled to appoint a qualified person to serve on the Board. The governing body of each customer can appoint one member of the governing body or an employee as a member of the Customer Advisory Council of the UTRWD. The Council will consult with and advise the UTRWD and Board on all pertinent matters related to operation of the District.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. WATER SUPPLY AGREEMENTS – CONTINUED

Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member – Continued

The supply of water on a minimum demand, on an interim basis, is for .50 million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its part of the annual requirement in monthly installments.

Upper Trinity Regional Water District Contract for Non-Potable Water Service with Denton County Fresh Water Supply District No. 1

The agreement provides for water conservation and drought contingency issues. The term of the contract is thirty (30) years or as long as the bonds issued remain outstanding. The Contract further has a twenty (20) year extension provision.

On March 8, 1995, the Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement.

District No. 1 desired to develop the ability to have a dual delivery system to provide non-potable water and the District agreed to provide such a water source. The District has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for the District is 3.35 million gallons per day (MGD).

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, the District will report to the UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement. On October 1, 1997, the District started funding the cost of the agreement with the UTRWD.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. WATER SUPPLY AGREEMENTS – CONTINUED

Wholesale Water Supply Agreement with the City of Lewisville

On January 28, 2008, District No. 1-A entered into a wholesale water supply agreement with the City of Lewisville (City). The City agrees to provide wholesale water supply to District No. 1-A for the City Wholesale Service Area. Within the City Wholesale Service Area, District No. 1-A agrees not to use potable water, including ground water, from any source or facilities other than from the City system without the prior written consent of the City Council of the City. District No. 1-A agrees, at its sole expense, to design and construct the infrastructure necessary to enable the City to connect the City system to District No. 1-A's system.

District No. 1-A will be charged a two-part rate, consisting of a volume rate and a demand rate (Charges), based on the City Wholesale Service Area's treated water consumption and Maximum Day Demand. The initial demand capacity requested from the City is 300,000 gallons per day.

Effective the date of this agreement, the initial volume rate is \$1.49 per 1,000 gallons and demand rate of \$299,160 per million gallons per day, paid monthly. The term of this agreement ends the earlier of August 18, 2032, or such date specified for District 1-A's annexation by the City.

NOTE 10. OPERATING AGREEMENTS

On July 15, 1999, the District entered in to an Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-B (District No. 1-B) with an effective date of October 1, 1997, and a separate Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-C (District No. 1-C) with an effective date of August 13, 1997. On June 14, 2000, the District executed an Operating Agreement with Denton County Fresh Water Supply District No. 1-D (District No. 1-D).

The agreement was effective November 1, 1999. On September 18, 2001, effective October 1, 2001, the District executed an operating agreement with District No. 1-E (District No. 1-E). The District also executed amended operating agreements with Districts 1-B, 1-C and 1-D on September 18, 2001, effective October 1, 2001. On November 15, 2007, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-F (District No. 1-F). On February 19, 2008, effective March 1, 2008, the District executed amended operating agreements with District Nos. 1-B, 1-C, 1-D, 1-E and 1-F. On March 18, 2008, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-G (District No. 1-G). On September 16, 2008, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-H (District No. 1-H). On September 16, 2008, effective October 1, 2008, the District executed amended and restated operating agreement with District Nos. 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H. The termination on all agreements is the fortieth (40th) anniversary date of the agreements.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OPERATING AGREEMENTS – CONTINUED

The District is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1. District Nos. 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H (Participating Districts).

The District is responsible for preparing and submitting to the Participating Districts a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of costs based on customer usage, if the total actual costs do not exceed the FOMB by more than 12% the Participating Districts' revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of the Participating Districts. The District shall be authorized to make expenditures not approved in the FOMB if: 1. Immediately required by law, or, 2. not in excess of \$5,000, with notification efforts being made to the applicable district.

The District agreed to handle all aspects of operating the Participating Districts including contracting for consultants, negotiating with various utility companies, coordinating with various governmental entities, reviewing all statements, invoices and billings, supervising and coordinating contractors, verifying insurance on contractors and facilities and recommending water and sewer rates. The District will employ personnel as required.

The respective districts being operated by the District agreed to institute a rate order containing, water, sewer, solid waste collection, building permits and inspection fees in an amount sufficient to cover expenses. The District agreed to provide such issuance of permits and inspection fees and management of the utility system. The fees for such permits and inspection services, payable to the District, will be the amount charged for the services. The Participating Districts agreed to fund a pro-rata portion of overhead cost incurred by the District from proceeds of the water, sewer and solid waste collection revenues.

The District agreed to provide construction and contract management services for the districts and has agreed to maintain and operate the roads and bridges. The Participating Districts have agreed to fund the cost of such services as required.

On August 17, 2005, the District approved the Amended and Restated Operating Agreement with District Nos. 1-B, 1-C, 1-D and 1-E. These new agreements became effective October 1, 2005. In accordance with these agreements, the cost of maintenance of the facilities within the districts of the Castle Hill Subdivision shall be allocated to each district based on the basis of projected water connections. Projected water connections are defined as those new connections that are projected to occur during the next succeeding fiscal year for all the districts. Each district's cost will be calculated based upon a fraction the numerator of which shall be the total number of actual and projected water connections within each district divided by the total number of actual and projected water connections within all the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first of each succeeding fiscal year thereafter.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OPERATING AGREEMENTS – CONTINUED

On September 17, 2008, the districts operated by the District approved the Amended and Restated Operating Agreement. This agreement is to become effective on October 1, 2008. All other provisions remained the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts. Each district's cost will be calculated based upon a fraction the numerator of which shall be the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district divided by the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40th) anniversary of October 1, 2008.

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

In June, 2009, District No. 1-A, District No. 1-B, District No. 1-C, District 1-D, District 1-E, District 1-F, District 1-G, and District 1-H, approved a Strategic Partnership Agreement (SPA) with the City of Lewisville. The Agreement allowed the City of Lewisville to annex certain properties for the limited purpose of imposing a sales and use tax on certain properties within each District. The sales and use tax collected will be used first to cover the cost of the City of Lewisville providing public safety services to the Districts. If, after all public safety costs are covered, there are surplus funds, then those funds are split 50%/50% between the City of Lewisville and District 1-A. Upon receipt of surplus funds, District 1-A will allocate those funds to the District(s) that generated the sales and use tax. The Agreement specifies that a District that receives funds from the SPA must first use those funds to repay any outstanding Developer debt. If no outstanding Developer Debt exists, the funds can be used for any lawful purpose. The Agreement will expire June, 2019 unless the City of Lewisville either; 1) renews the agreement, or 2) fully annexes the District.

NOTE 12. UNREIMBURSED DEVELOPER COST

On November 1, 1996, the District ratified participation in an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost dated April 24, 1995, with Bright Farm Partnership (Developer) to provide the advancement of monies to facilitate the operations of the District.

In 2008, the District 1-A contracted with the prior Auditor to complete a Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Bright Farm Partnership, Castle Hills Property Company, and Bright Realty, LTD. (collectively the Developer).

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 12. UNREIMBURSED DEVELOPER COST – CONTINUED

In May, 2009, the report was presented to the District 1-A Board of Directors that indicated that a combined amount of \$1,278,717 was due to 1-A from District 1-B, District 1-C, District 1-D, District 1-E, District 1-F, District 1-G and District 1-H. The following table outlines amounts due by District at September 30, 2010:

<u>District</u>	<u>Due to 1-A</u>
District 1-B	\$ -
District 1-C	3,365
District 1-D	583,602
District 1-E	143,180
District 1-F	150,108
District 1-G	92,913
District 1-H	<u>305,549</u>
Total	<u>\$ 1,278,717</u>

During the current fiscal year, District 1-B reimbursed District 1-A, \$476,552 for its share of District 1-A Developer Advances. District 1-A, in turn, reimbursed the Developer \$476,552. As of September 30, 2010, District 1-A owes the Developer \$1,278,717 which has been advanced for District operations and various project costs. The following schedule outlines amounts owed to the District at September 30, 2010:

<u>District</u>	<u>Due to 1-A</u>
District 1-B	\$ -
District 1-C	3,365
District 1-D	583,602
District 1-E	143,180
District 1-F	150,108
District 1-G	92,913
District 1-H	<u>305,549</u>
Total	<u>\$ 1,278,717</u>

The amount has been recorded as a liability in the statement of net assets. In addition, these costs have been recorded as a receivable from each of the Participating Districts in the statement of net assets.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 14. EXCESS CAPACITY PURCHASE AGREEMENT

On August 31, 1999, the District executed an agreement with Denton County Fresh Water Supply District No. 1-B (District No. 1-B). In accordance with the agreement, District No. 1-B agreed to sell excess capacity it has either purchased or constructed to the District. The capacity sold included drainage capacity constructed for the drainage basins, offsite water facilities, offsite sewer facilities, metering man holes and major water lines, thoroughfares and entrances and certain bridge and structural road facilities.

The District agreed to pay District No. 1-B \$4,100,000 for the excess capacity. On November 19, 1999, the District received \$1,875,158 from Denton County Fresh Water Supply District No. 1-D for a portion of the excess capacity purchased from District No. 1-B and \$75,006 from District No. 1-C. These amounts were forwarded to District No. 1-B in satisfaction of a portion of the amount due District No. 1-B. In addition, during the September 30, 2000, fiscal year, the Developer advanced \$1,211,415 to the District which was also paid to District No. 1-B in partial satisfaction of the amount due District No. 1-B. District No. 1-B subsequently repaid this amount to the Developer. In the September 30, 2001, fiscal year, the District received \$2,147,684 from PID 3 on behalf of District No. 1-E. The District continues to own \$2,152 in capacity previously constructed by PID No. 1 within the boundaries of District No. 1-B.

NOTE 15. LONG-TERM DEBT

A summary of long-term debt transactions, including the portion, for the year ended September 30, 2010, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ -	\$ 2,644,908	\$ -	\$ 2,644,908	\$ -
Leases payable	115,098	-	(54,909)	60,189	18,317
Govenemnetal actiivty long-term debt	<u>\$ 115,098</u>	<u>\$ 2,644,908</u>	<u>\$ (54,909)</u>	<u>\$ 2,705,097</u>	<u>\$ 18,317</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 15. LONG-TERM DEBT – CONTINUED

Texas Water Development Bonds

The contract revenue bonds are serial obligations with zero interest rate and scheduled to mature annually through 2030 when the full \$3,335,000 has been issued. Base on the construction draws to date as well as accrued retainage and liabilities for services performed but not yet paid the District is obligated for \$2,644,908 at year end.

The revenue bonds are payable from the net revenues of the District. Gross revenues are to be used for operating and maintenance expense of the system, and second to maintain revenue bond funds in accordance with the bond covenants. The District is in compliance with the revenue bond debt covenants as of September 30, 2010. Remaining revenues may then be used for any lawful purpose.

Debt service requirements of the revenue bonds for the years subsequent to September 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ -	\$ -	\$ -
2012	165,000	-	165,000
2013	165,000	-	165,000
2014	165,000	-	165,000
2015	165,000	-	165,000
2016-2020	825,000	-	825,000
2021-2025	830,000	-	830,000
2026-2030	329,908	-	329,908
	<u>\$ 2,644,908</u>	<u>\$ -</u>	<u>\$ 2,644,908</u>

Capital Lease Agreement

On December 15, 2005, the District entered into a Capital Lease Agreement with Diversified Lenders for sewer flushing machinery, broce broom, skid steer loader, vac machine, and pickup trucks. The purchase price of the equipment was \$148,621. The leased assets and related obligations are accounted for in the Statement of Net Assets. During the current fiscal year, the District paid off this lease with total payments of \$38,020. The lease payments are split between all Participating Districts in accordance with each individual operating contract.

On November 11, 2008, the District entered into a Capital Lease Agreement with Caterpillar Financial for the purchase of a 420E Caterpillar Backhoe Loader. The purchase price of the equipment was \$92,185. The leased assets and related obligations are accounted for in the Statement of Net Assets. During the current fiscal year, the District made total payments of \$19,991 with respect to the lease. The lease payments are split between all Participating Districts in accordance with each individual operating contract.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 15. LONG-TERM DEBT – CONTINUED

Capital Lease Agreement – Continued

The following is a schedule of future minimum lease payments under the capital lease as of September 30, 2010.

2011	\$	20,015
2012		20,015
2013		20,015
2014		<u>3,599</u>
Minimum lease payments		<u>63,644</u>
Less		
Amount representing interest at the District's incremental borrowing rate of interest		<u>3,455</u>
Present value of minimum lease payments	\$	<u><u>60,189</u></u>

As of September 30, 2010, the total present value of the capital lease obligation was \$60,189 of this total, \$18,317 was due within one year and the balance of \$41,872 is due after one year. In the current year, capital lease payments of \$54,909 for principal and \$3,102 for interest were made. These payments were made from contributions from the participants in the total amount of \$58,011.

NOTE 16. PENSION PLAN

Plan Description

On October 1, 2008, the District initiated a retirement plan. The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 586 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 16. PENSION PLAN – CONTINUED

Plan Description – Continued

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credit. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 8.99% for the months of the calendar year in 2008, and 8.99% for the months of the calendar year in 2010.

The contribution rate payable by the employee members for 2009 and 2010 is the rate of 7% as adopted by the District. The employee contribution rate and the employer contribution rate may be changed by the District within the options available in the TCDRS Act.

Annual Pension Cost

For the fiscal year ending September 30, 2010, the annual pension cost for the TCDRS plan for the District’s employees was \$92,996 and the employee contributions were \$72,411. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employees, parameters based on the actuarial valuations as of October 1, 2008, and December 31, 2008 and 2009, the basis for determining the contribution rates for fiscal years 2008 and 2009. The December 31, 2009 actuarial valuation is the most recent valuation.

	Actuarial Valuation Information		
	October 1, 2008	December 31, 2008	December 31, 2009
Actuarial valuation date	Entry age	Entry age	Entry age
Actuarial cost method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization method	15	10	8.6
Amortization period in years			

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 16. PENSION PLAN – CONTINUED

Annual Pension Cost – Continued

	October 1, 2008 (SAF: 10-year smoothed value)	December 31, 2008 (SAF: 10-year smoothed value)	December 31, 2009 (SAF: 10-year smoothed value)
Asset Valuation Method	ESF: Fund Value	ESF: Fund Value	ESF: Fund Value
Actuarial assumptions			
Investment return *	8.0%	8.0%	8.0%
Projected salary increases*	5.3%	5.3%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost of living adjustments	0.0%	0.0%	0.0%

*Includes inflation as the stated rate

The City's net pension obligation (NPO) for TCDRS is calculated as follows:

Fiscal Year	September 30, 2009	September 30, 2010
NPO, beginning of the year	\$ -	\$ -
Annual pension cost:		
Annual required contribution	91,427	92,996
Contributions made	(91,427)	(92,996)
NPO, end of the year	\$ -	\$ -

The following is the schedule of funding progress for the retirement plan for the employees of the District:

Actuarial Valuation Date	October 1, 2008	December 31, 2008	December 31, 2009
Actuarial value of assets	\$ -	\$ 39,207	\$ 207,845
Actuarial accrued liability	119,902	181,895	319,517
Underfunded (overfunded) actuarial accrued liability	119,902	142,688	111,672
Funded ratio	0.00%	21.55%	65.05%
Annual covered payroll	635,343	980,785	997,273
UAAL as a percentage of covered payroll	18.87%	14.55%	11.20%

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 17. OFFICE SPACE LEASE AGREEMENT

On September 5, 2008, the District executed an operating lease for office space. The lease is for 60 months with a base rent of \$11,546 per month. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently the future lease payments are as follows:

2011	\$	138,552
2012		138,552
2013		<u>138,552</u>
Total base future lease obligations	\$	<u><u>415,656</u></u>

NOTE 18. OPERATING LEASES

On February 12, 2008, the District executed a new operating lease for a copy machine. The agreement provides for the District to lease the copy machine for 60 months at the rate of \$273 per month. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently, the future lease payments are as follows:

2011	\$	3,279
2012		3,279
2013		<u>1,912</u>
Total base future lease obligations	\$	<u><u>8,470</u></u>

On March 2, 2007, the District executed an operating lease for a postage machine. The agreement provides for the District to lease the postage machine for sixty (60) months at the rate of \$124 a month. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently, the future lease payments are as follows:

2011	\$	1,493
2012		<u>1,120</u>
Total base future lease obligations	\$	<u><u>2,613</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 19. REIMBURSEMENT AGREEMENT

Effective May 20, 2009, the District entered into a reimbursement agreement between Castle Hills Development Corporation Bright Realty, Ltd., Bright Farm Partnership, Bright & Company, Inc., Castle Hills Property Company (collectively Bright Entities), District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 1-H (collectively the Districts). For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to the District. The District will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by the District will be considered as a full complete release of that particular district's obligation pursuant to existing developer reimbursement agreements. In addition to the \$1,278,717 shown in Note 12, the District has recorded \$8,097,709 as an additional receivable from the other governmental units and as a liability-an amount due to the Developer in accordance with this agreement. The following schedule outlines the amounts due to the District from the other Districts at September 30, 2010:

District	Due to 1-A
District 1-B	\$ -
District 1-C	1,000
District 1-D	1,713,741
District 1-E	1,507,587
District 1-F	4,680,408
District 1-G	140,236
District 1-H	54,737
Total	\$ 8,097,709

NOTE 20. COMMITMENTS AND CONTINGENCIES

Outstanding Commitments

Outstanding commitments at September 30, 2010, under authorized construction contracts were approximately \$314,897. These outstanding commitments are to be financed by available cash and investment balances as well as additional proceeds available from the District's federal loan program.

Litigation

The District is party to legal actions arising in the ordinary course of business. In the opinion of the District's management, the District has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the District's operations or financial position.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 20. COMMITMENTS AND CONTINGENCIES – CONTINUED

Litigation – Continued

On December 21, 2009, petitions for appeal of retail water and sewer rates of Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G, and 1-H were submitted to the Texas Commission on Environmental Quality (TCEQ) under § 13.043(b)(4) of the Texas Water Code. The petition was filed at the TCEQ by Patrick Kelly on behalf of all petitioning ratepayers, appealing the decision of the Board of Directors of the named Districts. Under the Operating Agreements that the other named Districts have with District No. 1-A, District No. 1-A performs a variety of administrative services necessary to operate the Districts' facilities which includes defending all claims, administrative proceedings and lawsuits brought by third parties against the Districts which have any effect on the Districts' facilities, or the construction, maintenance or operation of the Districts' facilities. Pursuant to the Operating Agreement and on behalf of all of the above-listed entities, Denton County Fresh Water Supply District No. 1-A filed a response to the petitions asserting that TCEQ does not have appellate jurisdiction over all or some of the listed water districts' rates. On June 14, 2010, an Administrative Law Judge (ALJ) for the State Office of Administrative Hearings (SOAH) accepted provisional jurisdiction over the rate appeal petitions subject to briefing by the Parties on certain jurisdictional issues. Such briefing to date has not been submitted due to on-going settlement discussions.

On July 23, 2010 a settlement agreement was entered into between District 1-A and the ratepayer petitioners of Districts 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H as represented by Patrick Kelly. The settlement agreement calls for an independent review of water rates during the 2010-2011 fiscal year. The only remaining party which has not agreed to settle is an individual ratepayer of District 1-D. At the present time, the judge has not acted on District 1-A's request to dismiss the settling ratepayers and districts from the case and the case remains pending before the ALJ with a prehearing conference scheduled for April 7, 2011. It is anticipated that this rate appeal case will not be concluded prior to the beginning of fiscal year 2011-2012. If settlement discussions do not resolve the remaining rate appeal, an administrative hearing will be held after which TCEQ will determine the appropriate water and sewer rates for one or more of the above-listed water districts (depending upon the ALJ's ruling on jurisdictional issues). Such TCEQ-determined rates could be less than rates set by the Boards of the respective water districts, which could necessitate the issuance of refunds to customers and the future generation of revenues less than the amount budgeted by the affected water districts. At this time, no reasonable basis exists for determining whether that may occur or the impacts on the revenues of any of the water districts.

NOTE 21. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the District adjusted its beginning fund balance on the Governmental financial Statements to record interest income received in the prior year for PID 1 bond reserve account (see note 6). The effect of these changes resulted in an increase in the beginning fund balance in the Capital Projects Fund by \$30,265.

REQUIRED SUPPLEMENTARY INFORMATION

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Original</u>	<u>Amended</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES:				
Project management fee	\$217,225	\$434,450	\$326,929	\$(107,521)
Charges for service	-	-	58,011	58,011
Water service	-	-	6	6
Penalty and interest	-	-	2	2
Permits and inspections	-	-	1,095	1,095
Investment revenues	-	-	7,454	7,454
Miscellaneous revenues	20,000	20,000	11,429	(8,571)
TOTAL REVENUES	<u>237,225</u>	<u>454,450</u>	<u>404,926</u>	<u>(49,524)</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	4,630	4,630	3,432	1,198
Professional fees	144,000	144,000	245,547	(101,547)
Purchased water service	-	-	366	(366)
Purchased wastewater service	-	-	1,493	(1,493)
Repairs and maintenance	-	-	2,152	(2,152)
Other	68,594	68,594	73,988	(5,394)
Debt service:				
Lease principal	-	-	54,909	(54,909)
Lease interest	-	-	3,102	(3,102)
TOTAL EXPENDITURES/EXPENSES	<u>217,224</u>	<u>217,224</u>	<u>384,989</u>	<u>(167,765)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	20,001	237,226	19,937	(217,289)
OTHER FINANCING SOURCES (USES)				
Contributions from other				
governmental units	-	476,552	476,552	-
Developer contribution	-	(476,552)	(476,552)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	20,001	237,226	19,937	(217,289)
FUND BALANCE AT OCTOBER 1, 2009	<u>137,479</u>	<u>137,479</u>	<u>137,479</u>	<u>-</u>
FUND BALANCES SEPTEMBER 30, 2010	<u><u>\$157,480</u></u>	<u><u>\$374,705</u></u>	<u><u>\$157,416</u></u>	<u><u>\$(217,289)</u></u>

**SUPPLEMENTARY INFORMATION - REQUIRED BY THE WATER
DISTRICT FINANCIAL MANAGEMENT GUIDE**

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> X </u>	Parks/Recreation	<u> X </u>	Fire Protection	<u> </u>	Security
<u> X </u>	Solid Waste/Garbage	<u> X </u>	Flood Control	<u> X </u>	Roads
<u> X </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 1" METER (OR EQUIVALENT):

Based on the rate order approved September 22, 2009

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Usage</u>	<u>Usage Levels</u>
Water:	34.75	2,000	N	3.74	2,001 to 15,000
				4.24	15,001 to 25,000
				5.06	25,001 to 35,000
				6.06	35,001 to 45,000
				7.06	45,001 to 55,000
				8.06	55,001 and up
Wastewater:					
Residential	8.75		N	3.70	2,001 not to exceed 15,000 gallons
Residential	37.04		Y		New Customers
Commercial	8.75		N	3.70	2,001 and up
Surcharge:					
Solid waste/garbage	16.07		Y		
Commission	.5% of actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? X Yes No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$37.04
Solid Waste: \$16.07

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

2. RETAIL SERVICE PROVIDERS – CONTINUED

b. WATER AND WASTEWATER RETAIL CONNECTIONS (Unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered			X 1.0	
≤ 3/4"			X 1.0	
1"	1	1	X 2.5	1
1 1/2"			X 5.0	
2"	5	5	X 8.0	40
3"			X 15.0	
4"			X 25.0	
6"			X 50.0	
8"			X 80.0	
10"			X 115.0	
Total water connections	6	6		41
Total wastewater connections	0	0	X 1.0	0

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

		Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	2,556,200	<u>90.9%</u>
Gallons purchased:	2,811,181	<u>From Upper Trinity Regional Water District</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have debt service standby fees? Yes ____ No X

Does the District have operation and maintenance standby fees? Yes ____ No X

5. LOCATION OF DISTRICT:

Is the District located entirely within one county? Yes X No ____

County or Counties in which District is located:

Denton County, TX.

Is the District located within a city?

Entirely ____ Partly X Not at all ____

City or Cities in which District is located:

City of Lewisville, TX.

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely ____ Partly X Not at all ____

ETJ's in which District is located:

City of Lewisville, TX.

Are Board Members appointed by an office outside the District? Yes ____ No X

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Personnel (including benefits)	<u>\$ 3,432</u>
Professional fees:	
Auditing	25,600
Engineering	5,510
Legal	<u>214,437</u>
Total professional fees	<u>245,547</u>
Purchased services for resale:	
Water service	366
Wastewater service	<u>1,493</u>
Total purchased services for resale	<u>1,859</u>
Repairs and maintenance	<u>2,152</u>
Other expenditures:	
Director fees	3,300
Directors costs	1,697
Insurance	68,214
Other	<u>777</u>
Total administrative expenditures	73,988
Debt service:	
Lease principal	54,909
Lease interest	<u>3,102</u>
Total debt service	<u>58,011</u>
Total expenditures	<u><u>\$ 384,989</u></u>

(Note: Personnel costs are allocated to the Participating Districts in the Castle Hills Development.)

Number of persons employed by the District

Full-time: 20
Part-time: 1

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS**

	Amounts			
	2010	2009	2008	2007
REVENUES:				
Project management fee	\$326,929	\$259,487	\$ 39	\$ 32,107
Charges for service	58,011	50,498	-	-
Water service	6	696	2,726	764
Wastewater service	-	109	229,335	34,515
Penalty and interest	2	341	-	-
Permits and inspections	1,095	19,054	93	-
Franchise fees	-	4,957	5,910	-
Investment revenues	7,454	10,785	1,607	995
Federal program revenues	-	-	-	1,244
Miscellaneous revenues	11,429	-	-	332
TOTAL REVENUES	<u>404,926</u>	<u>345,927</u>	<u>239,710</u>	<u>69,957</u>
EXPENDITURES/EXPENSES				
Service operations:				
Salaries	3,432	57,636	4,203	3,415
Professional fees	245,547	129,639	123,263	82,679
Contracted services	-	13,103	3,723	1,775
Purchased water service	366	9,646	7,586	7,025
Purchased wastewater service	1,493	-	2,463	2,292
Utilities	-	1,608	1,081	840
Repairs and maintenance	2,152	17,756	4,795	2,991
Other	73,988	30,095	90,774	88,364
Capital outlay	-	93,758	94,244	-
Debt service:				
Lease principal	58,011	45,685	29,703	30,953
Lease interest	-	5,542	4,761	5,983
TOTAL EXPENDITURES/EXPENSES	<u>384,989</u>	<u>404,468</u>	<u>366,596</u>	<u>226,317</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>19,937</u>	<u>(58,541)</u>	<u>(126,886)</u>	<u>(156,360)</u>
OTHER FINANCING SOURCES (USES)				
Capital lease financing	-	92,185	-	-
Contributions by other governmental units	476,552	-	128,021	36,936
Developer repayment	(476,552)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>92,185</u>	<u>128,021</u>	<u>36,936</u>
NET CHANGE IN FUND BALANCES	19,937	33,644	1,135	(119,424)
FUND BALANCES AT OCTOBER 1, 2009	<u>137,479</u>	<u>103,835</u>	<u>102,700</u>	<u>222,124</u>
FUND BALANCES AT SEPTEMBER 30, 2010	<u>\$157,416</u>	<u>\$137,479</u>	<u>\$103,835</u>	<u>\$102,700</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>19</u>	<u>31</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>2</u>	<u>2</u>

Percent of Total Revenues

<u>2006</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 7,645	80.8 %	75.1 %	0.0 %	45.9 %	56.6
-	14.3	14.6	0.0	0.0	0.0
-	0.0	0.2	1.1	1.1	0.0
-	0.0	0.0	95.7	49.3	0.0
-	0.0	0.1	0.0	0.0	0.0
-	0.3	5.5	0.0	0.0	0.0
-	0.0	1.4	2.5	0.0	0.0
-	1.8	3.1	0.7	1.4	0.0
4,315	0.0	0.0	0.0	1.8	32.0
1,540	2.8	0.0	0.0	0.5	11.4
13,500	100.0	100.0	100.0	100.0	100.0
-	0.8	16.7	1.8	4.9	0.0
86,113	60.6	37.5	51.4	118.2	637.9
-	0.0	3.8	1.6	2.5	0.0
-	0.1	2.8	3.2	10.0	0.0
-	0.4	0.0	1.0	3.3	0.0
-	0.0	0.5	0.5	1.2	0.0
-	0.5	5.1	2.0	4.3	0.0
74,945	18.3	8.7	37.9	126.3	555.1
148,621					
27,461	14.3	13.2	12.4	44.2	203.4
6,741	0.0	1.6	2.0	8.6	49.9
343,881	95.0	89.8	113.6 %	323.5 %	1446.3
(330,381)	5.0 %	10.2 %	-13.6 %	-223.5 %	-1346.3
148,621					
34,202					
182,823					
(147,558)					
369,682					
\$222,124					
95					
2					

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2010**

District Mailing Address - Denton County Fresh Water Supply District No. 1-A
2540 King Arthur, Suite 220
Lewisville, TX 75056

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended September 30, 2010</u>	<u>Expense Reimbursements for the year ended September 30, 2010</u>	<u>Title</u>
<u>*J. Jack Hays</u>	07/10 05/14 (Elected)	\$ 300	\$ -	Assistant Secretary
Gaylord S. O'Con	05/08 05/12 (Appointed)	\$ 1,650	\$ 223	President
John Phillip Brosseau	05/08 05/12 (Elected)	\$ 900	\$ 82	Vice President
Ronald Vaughn	05/08 07/10 (Elected)	\$ 750	\$ 148	Assistant Secretary
Scott Beard	05/08 05/14 (Elected)	\$ 1,650	\$ 129	Treasurer/ Secretary
Charles Lawson	05/10 05/14 (Elected)	\$ 1,650	\$ 295	Assistant Secretary

*Replaced Ronald Vaughn on 07/20/2010

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): May 27, 2010.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Texas Water Code Section 49.060. On May 18, 2005, the District formally adopted a Resolution setting the limits for its Directors at \$3,500. Fees of office shown above are at the amount actually paid to a Director during the District's current fiscal year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS – CONTINUED
SEPTEMBER 30, 2010**

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2010</u>	<u>Title</u>
Kelly Hart & Hallman, LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/2008	\$ 191,354	Attorney
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, Texas 75247	11/16/2009	\$ 5,511	Project Engineer
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	11/15/2000	\$ 25,600	Auditor
Hurt & Berry 10670 N Central Expy # 450 Dallas, TX 75231-1075	5/3/2010	\$ 23,083	Attorney
<u>Employees</u>			
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	\$ 0	General Manager/ Investment Officer